

CITY OF PELLA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2008

CITY OF PELLA, IOWA
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CITY OF PELLA, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2008)		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2008
Ronda Brown	City Clerk	January, 2008
(After January, 2008)		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2010
Ronda Brown	City Clerk	January, 2010

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 9, 2009 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 52 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

January 9, 2009

CITY OF PELLA, IOWA

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$88,539,635 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$32,933,604.
- Assets of business type activities exceeded liabilities by \$55,606,031.
- The revenues of the governmental activities exceeded expenses by \$2,121,646.
- Within the City's business-type activities, revenues exceeded expenses by \$1,065,571. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2008, the general fund had an unrestricted fund balance of \$1,766,165 or working capital of nearly 43% of annual expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decision. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue TIF-Pella Business Corridor fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$88,539,635 at the close of the most recent fiscal year. As noted in footnote #20, an adjustment was made to reclass general obligation debt to debt service from the Wastewater fund. Further clarification from the state regarding general obligation debt issued for a proprietary purpose resulted in the change. The beginning fund balance for the Wastewater fund increased by \$1,085,000 and the beginning fund balance for the government wide financial statements decreased by the same amount.

The most significant portion of the city's net assets (83.43%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

STATEMENT OF NET ASSETS						
	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 8,698,021	10,079,956	15,764,406	15,918,251	24,462,427	25,998,207
Capital assets	39,162,174	37,123,852	65,948,696	66,001,179	105,110,870	103,125,031
Total assets	47,860,195	47,203,808	81,713,102	81,919,430	129,573,297	129,123,238
Current Liabilities	7,022,134	6,950,188	4,261,568	3,791,878	11,283,702	10,742,066
Long-term liabilities	7,904,457	8,356,662	21,845,503	24,672,092	29,749,960	33,028,754
Total Liabilities	14,926,591	15,306,850	26,107,071	28,463,970	41,033,662	43,770,820
Net assets:						
Invested in capital assets, net of related debt	31,457,680	28,052,647	42,408,099	39,354,714	73,865,779	67,407,361
Restricted assets	1,021,035	2,027,783	4,513,654	4,489,761	5,534,689	6,517,544
Unrestricted assets	454,889	1,816,528	8,684,278	9,610,985	9,139,167	11,427,513
Total net assets	\$ 32,933,604	31,896,958	55,606,031	53,455,460	88,539,635	85,352,418

A portion of the City's net assets (6.25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$9,139,167 may be used to meet the City's ongoing obligations to citizens and creditors.

	CHANGES IN NET ASSETS					
	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Revenues						
Charges for service	\$ 586,183	511,214	20,676,351	19,220,522	21,262,534	19,731,736
Operating grants, contributions	1,054,914	1,071,252	-	-	1,054,914	1,071,252
Capital grants, contributions	103,920	238,015	403,997	130,110	507,917	368,125
Property taxes	2,863,107	2,792,009	-	-	2,863,107	2,792,009
Local option taxes	875,711	984,332	-	-	875,711	984,332
TIF	2,022,553	1,867,289	-	-	2,022,553	1,867,289
Other Taxes	516,806	543,830	-	-	516,806	543,830
Grants & contributions	38,193	37,948	-	-	38,193	37,948
Payment in lieu of taxes	481,051	470,198	-	-	481,051	470,198
Investment earnings	117,652	135,482	593,106	765,336	710,758	900,818
Miscellaneous	-	-	173,366	106,940	173,366	106,940
Gain on sale of assets	(754)	-	(9,405)	39,642	(10,159)	39,642
Contributions to permanent fund	-	-	-	-	-	-
Transfers	231,331	19,356	(231,331)	(19,356)	-	-
Total revenues	8,890,667	8,670,925	21,606,084	20,243,194	30,496,751	28,914,119
Expenses						
General government	561,931	503,892	-	-	561,931	503,892
Public Safety	1,635,338	1,524,409	-	-	1,635,338	1,524,409
Public Works	1,670,679	1,640,540	-	-	1,670,679	1,640,540
Culture & Recreation	1,982,008	1,863,688	-	-	1,982,008	1,863,688
Community & Economic Development	463,659	541,534	-	-	463,659	541,534
Facilities & Acquisition	(85,446)	(30,887)	-	-	(85,446)	(30,887)
Long-term debt and interest cost	540,852	438,406	-	-	540,852	438,406
Water	-	-	1,897,882	2,017,309	1,897,882	2,017,309
Sewer	-	-	2,037,893	2,099,812	2,037,893	2,099,812
Sanitation	-	-	500,331	477,373	500,331	477,373
Electric	-	-	16,104,407	13,660,435	16,104,407	13,660,435
Total expenses	6,769,021	6,481,582	20,540,513	18,254,929	27,309,534	24,736,511
Change in net assets	\$2,121,646	2,189,343	1,065,571	1,988,265	3,187,217	4,177,608

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$1,335,817 at June 30, 2008. This was a decrease of \$2,530,879 from the prior year and was due to planned capital expenditures using cash reserves and early retirement of debt. The City retired the 2001A G.O. Bos Landen Bonds with an outstanding balance of \$755,000 two years early. This early retirement provided interest savings of \$47,122. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance increased by \$5,807 in Fiscal Year 2008. As a result, our fund balance increased to \$1,766,165 which represents approximately 43% of annual expenditures, and exceeds the City's target range of 30% to 40%.

Debt Service Fund

The debt service fund's balance of \$7,442 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$30,828, which was a planned drawdown of the fund balance.

Special Revenue TIF-Pella Business Corridor Fund

The Pella Business Corridor TIF Fund had a negative balance of \$429,128 at June 30, 2008. However, \$309,000 of this balance is a payable due to the Road Use Tax Fund, and will be repaid as development occurs in the TIF district. During the year the fund balance decreased by \$142,351, which was a planned draw down.

Capital Projects Funds

The capital project funds are comprised of two main funds and six smaller funds which are as follows:

Capital Facilities Fund had a fund balance of \$205,506 at June 30, 2008. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

Other Capital Facility Funds had a total fund balance of \$0 at June 30, 2008.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The combined net assets of the enterprise funds at June 30, 2008 totaled \$55,606,031 of which \$8,684,278 is unrestricted. Overall, net assets for enterprise funds increased by \$1,065,571, which is an increase of 1.99% over the 2007 net assets of \$53,455,460.

The net assets of internal service funds, which is comprised mainly of the City's health insurance trust fund decreased from \$591,278 to \$527,037. The reason for a majority of the decrease was due to higher than expected claims for the year.

BUDGETARY HIGHLIGHTS

The FY 08 budget was amended on March 4, 2008 for the following reasons:

- The FY 07-08 Budget contained estimated totals for the Electric Utility that were based on the FY 06-07 Budget. The reason we used estimated totals is because we conduct a separate budget session for the utility after Council formally approves the regular city budget. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 07-08 Budget to include the electric budget that was approved by Council on July 3, 2007. This request contains revenue increases of \$2,107,100 and expenditure increases of \$2,993,370.
- Expenditures were increased \$25,728 for Minimum Wage Increase.
- Expenditures were decreased \$29,461 for not filling the Collection Dist. Superintendent position.
- Expenditures were increased \$35,100 for Ice Storm Cleanup.
- Expenditures were increased \$585,000 for the Refunding of the 1999 G.O. Bonds.
- Expenditures were increased \$15,900 for the Washington St Corridor Enhancement Study.
- Expenditures were increased \$16,500 for the Caldwell Park Master Plan.
- Expenditures were increased \$41,121 for GAC Filter Media Replacement.
- Expenditures were increased \$10,000 to replace a GAC Filter Valve.
- Expenditures were increased \$37,000 for Jordan Well Backup Motor & Materials.
- Expenditures were increased \$40,000 for the W 4th St Sewer Replacement.
- Expenditures were increased \$20,550 for Library Sewer Repairs.
- Expenditures were increased \$10,000 for Repainting Markings at the Aquatic Center.
- Expenditures were increased \$37,500 for the installation of the University Sidewalk.
- Expenditures were increased \$16,000 for Water Distribution System Modeling.
- Expenditures were decreased \$220,000 for the Fire Department Pumper Truck that will be delivered in FY 08/09.
- Expenditures and Revenues were increased \$1,500,000 for selling SO2 Credits to fund the Boiler Repairs at the Power Plant.
- Expenditures were increased \$38,572 for miscellaneous small capital projects.
- The remaining \$514,122 in expenditure increases were due to small projects and items previously budgeted in the FY 06-07 budget but the expenses were not incurred until FY 07-08.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and associated expenses for the year included the following:

Governmental Activities

Construction of a new Lazy River for our aquatic center \$2,415,081

Laying asphalt on Eagle Lane from Business 163 to Roosevelt Road \$110,273

Electric Fund

Construction cost for ownership share of Walter Scott 4 (WS 4) \$612,855

Boiler 6 Damage Repair \$639,143

Cable Replacement in the Hospital Area Feeder \$107,115

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2008, the City had bonds outstanding of \$31,566,000. This included new issues of \$2,650,000 which were issued for the following purposes:

2008A G.O. Refunding Capital Loan Notes for \$1,230,000 - The purpose of this issue was to refund the 1999 G.O. Molengracht TIF Urban Renewal Bonds for a savings of \$134,800.

2008B G.O. Refunding Urban Renewal Capital Loan Notes \$1,420,000 - The purpose of this issue was to refund the 2000 G.O. Molengracht TIF Urban Renewal Bonds for a savings of \$110,400.

The City maintains an A2 rating from Moody's Investor Services on all its general obligation debt and electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2006. The current general obligation debt limitation for the City is \$28,649,430 and at June 30, 2008 there was \$7,910,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$20,739,430 or 72.39%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Pella has already begun to feel the impact of the national recession with significant revenue decreases in the current fiscal year for our major utilities. The City will also continue to struggle with stagnant taxable property valuations in FY 09. This is due in large part to the state 'rollback' valuation system in which the taxable valuation of residential property is linked to agriculture property. As a result, allowable growth for residential property cannot exceed agriculture property. The problem lies in the fact that 64% of our property valuations are residential. Furthermore agricultural property has been in a slump over the last decade. As a result, general fund taxable property valuations have been relatively stagnant over the last four years, which has resulted in a leveling off of property tax revenue.

At the state level, where revenues are more closely tied to the national economy, annual collections have meet growth projections in 2009. As a result, the State of Iowa did not cut funding to local governments in fiscal year 2009. Currently, the State of Iowa is experiencing significant financial problems. It is likely that some of the State's budget problems will be passed along to local governments.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2009 Budget:

Property Taxes

The City was able to maintain its property tax rate in Fiscal Year 2008 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2009.

Electric Rates

There has not been an electrical rate increase since 1996. However, the dilemma the City faces in future years is costs to meet the new clean air requirements by the Environmental Protection Agency. Therefore it is very likely that the City will need to increase rates to meet compliance standards in the future.

Water Rates

For Fiscal Year 2008 there was no increase in water rates. However, it is likely rates will need to be adjusted in the near future to pay for source water improvements.

Waste Water Rates

For Fiscal Year 2008 there was no increase in waste water rates. However, it is likely rates will need to be adjusted in the near future to fund the replacement of aging collection mains throughout the City and capital improvements needed at the wastewater plant.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

Financial Statements

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,622,350	7,147,722	9,770,072
Receivables:			
Property tax:			
Delinquent	22,216	-	22,216
Succeeding year	3,419,214	-	3,419,214
Tax increment financing:			
Delinquent	48,087	-	48,087
Succeeding year	1,642,364	-	1,642,364
Local option	189,199	-	189,199
Accounts (net of allowance for uncollectibles)	34,161	1,905,446	1,939,607
Accrued interest	16,865	74,242	91,107
Due from other governments	39,440	2,502	41,942
Inventories	-	976,520	976,520
Prepaid expenses	320	22,009	22,329
Restricted assets:			
Cash and pooled investments	1,021,035	4,513,654	5,534,689
Deferred charge (issuance costs)	-	200,561	200,561
Due from other funds		921,750	921,750
Capital assets(net of accumulated depreciation)	39,162,174	65,948,696	105,110,870
Total assets	48,217,425	81,713,102	129,930,527
Liabilities			
Excess of warrants over bank balance	\$ 357,230	-	357,230
Accounts payable and accrued liabilities	521,038	1,855,083	2,376,121
Salaries and benefits payable	168,577	135,522	304,099
Deposits	-	97,206	97,206
Accrued interest payable	38,717	77,323	116,040
Unearned revenue:			
Succeeding year property tax	3,419,214	-	3,419,214
Succeeding year tax increment financing	1,642,364	-	1,642,364
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	1,070,000	-	1,070,000
Revenue bonds payable	-	1,907,000	1,907,000
Compensated absences	162,224	189,434	351,658
Portion due or payable after one year:			
General obligation bonds	6,840,000	-	6,840,000
Revenue bonds payable (net of unamortized discounts)	-	21,633,597	21,633,597
Due to other funds	921,750	-	921,750
Compensated absences	142,707	211,906	354,613
Total liabilities	15,283,821	26,107,071	41,390,892

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2008

Continued from previous page.

Net Assets

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Invested in capital assets, net of related debt	31,457,680	42,408,099	73,865,779
Restricted for:			
Debt service and improvements	-	4,416,448	4,416,448
Special Purposes	881,035	-	881,035
Permanent Trust	140,000	-	140,000
Other	-	97,206	97,206
Unrestricted	454,889	8,684,278	9,139,167
Total net assets	\$ 32,933,604	55,606,031	88,539,635

See notes to financial statements.

Exhibit B

CITY OF PELLA, IOWA
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Governmental activities:				
Public safety	\$ 1,635,338	98,111	72,042	-
Public works	1,670,679	41,195	924,287	-
Culture and recreation	1,982,008	381,263	58,585	-
Community and economic development	463,659	3,358	-	-
General government	561,931	62,256	-	-
Long-term debt costs and interest	540,852	-	-	-
Facilities and acquisition	(85,446)	-	-	103,920
Total governmental activities	6,769,021	586,183	1,054,914	103,920
Business type activities:				
Water	1,897,882	1,831,837	-	169,852
Wastewater	2,037,893	1,489,153	-	234,145
Sanitation	500,331	547,849	-	-
Electric	16,104,407	16,807,512	-	-
Total business type activities	20,540,513	20,676,351	-	403,997
Total primary government	\$ 27,309,534	21,262,534	1,054,914	507,917
General Revenues:				
Taxes:				
Property taxes				
Local option tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,465,185)	-	(1,465,185)
(705,197)	-	(705,197)
(1,542,160)	-	(1,542,160)
(460,301)	-	(460,301)
(499,675)	-	(499,675)
(540,852)	-	(540,852)
189,366	-	189,366
(5,024,004)	-	(5,024,004)
-	103,807	103,807
-	(314,595)	(314,595)
-	47,518	47,518
-	703,105	703,105
-	539,835	539,835
(5,024,004)	539,835	(4,484,169)
2,863,107	-	2,863,107
875,711	-	875,711
2,022,553	-	2,022,553
516,806	-	516,806
38,193	-	38,193
481,051	-	481,051
117,652	593,106	441,443
-	173,366	173,366
(754)	(9,405)	(10,159)
231,331	(231,331)	-
7,145,650	525,736	7,671,386
2,121,646	1,065,571	3,187,217
30,811,958	54,540,460	85,352,418
\$ 32,933,604	55,606,031	88,539,635

CITY OF PELLA, IOWA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Total
Assets						
Cash and pooled investments	\$1,840,333	-	2,772	404,959	750,114	2,998,178
Receivables:						
Property tax:						
Delinquent	14,503	-	4,670	-	3,043	22,216
Succeeding year	2,524,062	-	491,479	-	403,673	3,419,214
Tax increment financing:						
Delinquent	-	2,744	-	-	45,343	48,087
Succeeding year	-	1,537,856	-	-	104,508	1,642,364
Local option sales tax	-	-	-	-	189,199	189,199
Accounts receivable, miscellaneous	5,257	-	-	25,110	3,794	34,161
Accrued interest	9,086	-	-	1,792	2,477	13,355
Due from other governments	17,729	-	-	13,897	7,814	39,440
Prepaid expenditures	320	-	-	-	-	320
Due from other funds	307,250	-	-	6,612	309,000	622,862
Total assets	\$4,718,540	1,540,600	498,921	452,370	1,818,965	9,029,396
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants over bank balance	\$ -	120,054	-	-	237,176	357,230
Accounts payable and accrued liabilities	135,482	2,818	-	246,864	14,194	399,358
Salaries and benefits payable	148,849	-	-	-	19,728	168,577
Deferred revenue:						
Succeeding year property tax	2,524,062	-	491,479	-	403,673	3,419,214
Succeeding year tax increment financing	-	1,537,856	-	-	104,508	1,642,364
Due to other funds	-	309,000	-	-	1,235,612	1,544,612
Compensated absences payable	143,982	-	-	-	18,242	162,224
Total liabilities	2,952,375	1,969,728	491,479	246,864	2,033,133	7,693,579
Fund balances:						
Reserved for:						
Debt Service	-	-	7,442	-	-	7,442
Permanent Trust	-	-	-	-	140,000	140,000
Unreserved:						
Undesignated:						
Reported in:						
General Fund	1,766,165	-	-	-	-	1,766,165
Special Revenue fund	-	(429,128)	-	-	(354,168)	(783,296)
Capital Projects fund	-	-	-	205,506	-	205,506
Total fund balances	1,766,165	(429,128)	7,442	205,506	(214,168)	1,335,817
Total liabilities and fund balances	\$ 4,718,540	1,540,600	498,921	452,370	1,818,965	9,029,396

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2008

Total fund balances of governmental funds (Exhibit C)	\$ 1,335,817
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$53,466,645 and the accumulated depreciation is \$14,304,471.

39,162,174

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets.

527,037

Long-term liabilities, including bonds/notes payable, compensated absences, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

(8,091,424)

Net assets of governmental activities (Exhibit A)

\$ 32,933,604

See notes to financial statements.

Exhibit E

CITY OF PELLA, IOWA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year ended June 30, 2008

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property taxes	\$ 2,008,423	-	434,901	-	419,783	2,863,107
Tax increment financing	-	1,312,036	-	-	710,517	2,022,553
Local option sales tax	-	-	-	-	875,711	875,711
Other city taxes	411,190	-	2,526	-	103,090	516,806
Licenses and permits	18,266	-	-	-	-	18,266
Use of money and property	77,464	2,638	10,052	13,470	55,317	158,941
Intergovernmental	585,392	-	-	90,450	947,111	1,622,953
Special Assessments	-	-	-	-	-	-
Charges for services	411,384	-	-	-	-	411,384
Miscellaneous	134,706	-	-	-	35,663	170,369
Total revenues	3,646,825	1,314,674	447,479	103,920	3,147,192	8,660,090
Expenditures:						
Current operating:						
Public safety	1,546,602	-	-	-	21,884	1,568,486
Public works	254,366	-	-	-	782,928	1,037,294
Culture and recreation	1,595,685	-	-	-	49,925	1,645,610
Community and economic development	329,545	134,114	-	-	-	463,659
General government	344,179	-	-	-	-	344,179
Debt service	-	17,491	5,832,705	-	3,095	5,853,291
Capital projects	-	-	-	3,142,731	-	3,142,731
Total expenditures	4,070,377	151,605	5,832,705	3,142,731	857,832	14,055,250
Excess (deficiency) of revenues over (under) expenditures	(423,552)	1,163,069	(5,385,226)	(3,038,811)	2,289,360	(5,395,160)
Other financing sources (uses):						
Operating transfers in	479,359	-	2,721,448	2,862,350	229,419	6,292,576
Operating transfers (out)	(50,000)	(1,305,420)	-	(56,828)	(4,648,997)	(6,061,245)
General obligation bond issued	-	-	2,650,000	-	-	2,650,000
Discount on general obligation bonds	-	-	(17,050)	-	-	(17,050)
Total other financing sources (uses)	429,359	(1,305,420)	5,354,398	2,805,522	(4,419,578)	2,864,281
Net change in fund balances	5,807	(142,351)	(30,828)	(233,289)	(2,130,218)	(2,530,879)
Fund balances beginning of year	1,760,358	(286,777)	38,270	438,795	1,916,050	3,866,696
Fund balances end of year	\$ 1,766,165	(429,128)	7,442	205,506	(214,168)	1,335,817

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2008

Net change in fund balances - total governmental funds (Exhibit E) \$ (2,530,879)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 3,228,177	
Depreciation expense	(1,189,101)	
Assets disposed of	<u>(754)</u>	2,038,322

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(2,650,000)	
Discount on general obligation bonds		
Repaid	<u>5,335,000</u>	2,685,000

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	18,300	
Employer funds for benefits shifted from other funds	749,304	
Employee benefits collected through withholding	171,026	
Claims and premiums paid out	<u>(1,002,871)</u>	(64,241)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(1,045)	
Interest on long-term debt	<u>(5,511)</u>	(6,556)

Change in net assets of governmental activities (Exhibit B) \$ 2,121,646

See notes to financial statements.

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Assets						
Current assets:						
Cash and pooled investments	\$ 1,571,969	645,779	4,903,260	26,714	7,147,722	645,207
Receivables:						
Accrued interest	16,190	7,706	50,164	182	74,242	3,510
Trade (net of allowance for uncollectible)	145,133	126,935	1,583,667	49,711	1,905,446	-
Inventories	128,605	106,438	741,477	-	976,520	-
Due from other governments	-	-	2,502	-	2,502	-
Prepaid expenses	-	-	22,009	-	22,009	-
Total current assets	1,861,897	886,858	7,303,079	76,607	10,128,441	648,717
Non-current assets:						
Restricted assets (cash and pooled investments)	460,000	447,300	3,606,354	-	4,513,654	-
Deferred charge (issuance costs)	41,355	39,086	120,120	-	200,561	-
Due from other funds	307,250	-	614,500	-	921,750	-
Capital assets:						
Land, wastewater rights and infrastructure	118,360	907,049	550,724	-	1,576,133	-
Depreciable buildings, property, equipment and infrastructure, net	8,027,531	11,197,713	45,147,319	-	64,372,563	-
Total non-current assets	8,954,496	12,591,148	50,039,017	-	71,584,661	-
Total assets	\$ 10,816,393	13,478,006	57,342,096	76,607	81,713,102	648,717
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 127,233	30,446	1,658,196	39,208	1,855,083	121,680
Salaries and benefits payable	24,852	18,679	90,416	1,575	135,522	-
Deposits	-	-	97,206	-	97,206	-
Accrued interest payable	8,996	12,379	55,948	-	77,323	-
Compensated absences payable	44,610	32,732	109,445	2,647	189,434	-
Long-term debt - due within one year:						
Revenue bonds payable	400,000	217,000	1,290,000	-	1,907,000	-
Total current liabilities	605,691	311,236	3,301,211	43,430	4,261,568	121,680
Long-term liabilities (net of current portion):						
Compensated absences payable	58,090	39,749	113,729	338	211,906	-
Revenue bonds payable (net of unamortized discount)	2,560,381	3,419,000	15,654,216	-	21,633,597	-
Total long-term liabilities	2,618,471	3,458,749	15,767,945	338	21,845,503	-
Total liabilities	3,224,162	3,769,985	19,069,156	43,768	26,107,071	121,680
Net Assets						
Invested in capital assets, net of related debt	5,185,510	8,468,762	28,753,827	-	42,408,099	-
Restricted for debt service	460,000	447,300	2,009,148	-	2,916,448	-
Restricted for improvements	-	-	1,500,000	-	1,500,000	-
Restricted other	-	-	97,206	-	97,206	-
Unrestricted	1,946,721	791,959	5,912,759	32,839	8,684,278	527,037
Total net assets	\$ 7,592,231	9,708,021	38,272,940	32,839	55,606,031	527,037

See notes to financial statements

Exhibit H

CITY OF PELLA, IOWA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2008

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 1,831,837	1,489,153	16,807,512	547,849	20,676,351	-
Internal service charges						920,330
Total operating revenues	1,831,837	1,489,153	16,807,512	547,849	20,676,351	920,330
Operating expenses:						
Personnel services	724,171	501,990	2,325,777	42,239	3,594,177	-
Contractual	56,763	27,342	-	429,558	513,663	314,873
Franchise fees	45,630	29,290	-	-	74,920	-
Materials and Supplies	430,574	503,058	7,357,278	28,534	8,319,444	-
Purchased power	-	-	4,066,771	-	4,066,771	-
Payments in lieu of taxes	-	-	481,051	-	481,051	-
Payments in lieu of services	-	-	97,137	-	97,137	-
Depreciation	492,701	800,930	1,037,737	-	2,331,368	-
Claims expense	-	-	-	-	-	687,998
Total operating expenses	1,749,839	1,862,610	15,365,751	500,331	19,478,531	1,002,871
Operating income (loss)	81,998	(373,457)	1,441,761	47,518	1,197,820	(82,541)
Non-operating revenues (expenses):						
Debt costs and interest	(148,043)	(175,283)	(738,656)	-	(1,061,982)	-
Interest income	92,056	53,230	446,792	1,028	593,106	18,300
Rents	21,600	12,225	-	-	33,825	-
Sale/disposal of fixed assets	-	(36,133)	26,728	-	(9,405)	-
Other revenues	8,175	29,969	92,467	8,930	139,541	-
Total non-operating revenues (expenses)	(26,212)	(115,992)	(172,669)	9,958	(304,915)	18,300
Income (loss) before operating transfers	55,786	(489,449)	1,269,092	57,476	892,905	(64,241)
Capital contributions-assets	169,852	234,145	-	-	403,997	-
Transfers (out)	(4,275)	(168,145)	(4,275)	(54,636)	(231,331)	-
Net contributions and transfers	165,577	66,000	(4,275)	(54,636)	172,666	-
Change in net assets	221,363	(423,449)	1,264,817	2,840	1,065,571	(64,241)
Net assets beginning of year, as restated	7,370,868	10,131,470	37,008,123	29,999	54,540,460	591,278
Net assets end of year	\$ 7,592,231	9,708,021	38,272,940	32,839	55,606,031	527,037

See notes to financial statements.

Exhibit I

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2008

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers	\$ 1,868,199	1,537,751	16,632,957	542,675	20,581,582	-
Cash received from internal service charges	-	-	-	-	-	920,330
Cash payments to employees for services	(710,303)	(490,587)	(2,282,672)	(41,121)	(3,524,683)	-
Cash payments for goods and services	(523,065)	(558,005)	(11,068,592)	(454,467)	(12,604,129)	(1,011,358)
Replacement tax, transfers	-	-	(481,051)	-	(481,051)	-
Net cash provided (used) by operating activities	634,831	489,159	2,800,642	47,087	3,971,719	(91,028)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	29,775	42,194	92,467	8,930	173,366	-
Transfers in	-	-	-	-	-	-
Transfers (out)	(4,275)	(168,145)	(4,275)	(54,636)	(231,331)	-
Net cash provided by non-capital financing activities	25,500	(125,951)	88,192	(45,706)	(57,965)	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(491,463)	(499,178)	(1,555,783)	-	(2,546,424)	-
Principal paid on long-term debt	(360,000)	(208,000)	(1,245,000)	-	(1,813,000)	-
Interest costs (not capitalized)	(141,843)	(157,038)	(720,882)	-	(1,019,763)	-
Other long-term debt costs	(10,895)	(22,992)	(21,638)	-	(55,525)	-
Due from other funds	(307,250)	-	(614,500)	-	(921,750)	-
Proceeds from sale of capital assets	-	-	26,728	-	26,728	-
Net cash used by capital and related financing activities	(1,311,451)	(887,208)	(4,131,075)	-	(6,329,734)	-
Cash flows from investing activities:						
Proceeds (to) from investments	302,891	355,438	1,182,100	1,386	1,841,815	(192,620)
Investment income	102,701	58,900	491,163	1,148	653,912	20,609
Net cash used by investing activities	405,592	414,338	1,673,263	2,534	2,495,727	(172,011)
Net decrease in cash and cash equivalents	(245,528)	(109,662)	431,022	3,915	79,747	(263,039)
Cash and cash equivalents at beginning of year	550,248	380,558	2,715,830	3,382	3,650,018	533,733
Cash and cash equivalents at end of year	\$ 304,720	270,896	3,146,852	7,297	3,729,765	270,694
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 81,998	(373,457)	1,441,761	47,518	1,197,820	(82,541)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	492,701	800,930	1,037,737	-	2,331,368	-
Change in assets and liabilities:						
(Increase) decrease in receivables	36,362	48,598	(198,448)	(5,174)	(118,662)	-
(Increase) decrease in inventory	(10,960)	337	(26,427)	-	(37,050)	-
(Increase) in due from other governments	-	-	(2,502)	-	(2,502)	-
Decrease in prepaid expense	-	-	69,876	-	69,876	-
Increase (decrease) in accounts payable	20,862	1,348	411,647	3,625	437,482	(8,487)
Increase in accrued expenses	288	2,985	17,556	253	21,082	-
Increase in compensated absences	13,580	8,418	25,549	865	48,412	-
Increase in deposits held	-	-	23,893	-	23,893	-
Total adjustments	552,833	862,616	1,358,881	(431)	2,773,899	(8,487)
Net cash provided (used) by operating activities	\$ 634,831	489,159	2,800,642	47,087	3,971,719	(91,028)

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2008

Continued from previous page

**Reconciliation of cash and cash equivalents at year end
to specific assets included on the Statement of Net
Assets:**

Current assets:

Cash and pooled investments	\$ 1,571,969	645,779	4,903,260	26,714	7,147,722	645,207
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Restricted assets:

Cash and pooled investments:

Water bond reserve	460,000	-	-	-	460,000	-
Wastewater bond reserve	-	447,300	-	-	447,300	-
Electric bond reserve	-	-	2,009,148	-	2,009,148	-
Electric improvement reserve	-	-	1,500,000	-	1,500,000	-
Customer deposits	-	-	97,206	-	97,206	-
	460,000	447,300	3,606,354	-	4,513,654	-

Total cash and pooled investments	2,031,969	1,093,079	8,509,614	26,714	11,661,376	645,207
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Less items not meeting definition of cash equivalent:

Certificates of deposit	(1,683,981)	(801,587)	(5,228,423)	(18,931)	(7,732,922)	(365,133)
Iowa Public Agency Investment Trust	(43,268)	(20,596)	(134,339)	(486)	(198,689)	(9,380)
	(1,727,249)	(822,183)	(5,362,762)	(19,417)	(7,931,611)	(374,513)

Cash and cash equivalents at year end	\$ 304,720	270,896	3,146,852	7,297	3,729,765	270,694
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Non-cash investing, capital and financing

activities:

Current issuance cost expense, prior cash outlay	\$ 6,153	12,496	12,196	-	30,845	-
Current discount amortization, prior cash receipt	(3,581)	(8,573)	(11,384)	-	(23,538)	-
Contributions of capital assets from developer/ government	169,852	234,145	-	-	403,997	-
Acquisition of capital assets through developer/ government contribution	(169,852)	(234,145)	-	-	(403,997)	-

See notes to financial statements.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in accordance with U.S. generally accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) ***Summary of Significant Accounting Policies (continued from previous page)***
B. Basis of Presentation (continued from previous page)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) Summary of Significant Accounting Policies (continued from previous page)

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The Bos Landen and High Point Tax Increment Financing Funds are used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) ***Summary of Significant Accounting Policies (continued from previous page)***
C. Measurement Focus and Basis of Accounting (continued from previous page)

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. **Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

D. Assets, Liabilities and Fund Equity (continued from previous page)

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2008 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2007.

Due from and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) **Summary of Significant Accounting Policies (continued from previous page)**

D. Assets, Liabilities and Fund Equity (continued from previous page)

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year's property tax receivable and the succeeding year's tax increment financing receivable.

Unearned revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

D. Assets, Liabilities and Fund Equity (continued from previous page)

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2008.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, reservations of fund balances are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(1) Summary of Significant Accounting Policies (continued from previous page)

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public safety, public works, community and economic development, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2008 are as follows:

Certificates of deposit	\$ 9,476,429
Iowa Public Agency Investment Trust	243,442
Government Bonds	48,843
Total	<u>\$ 9,768,714</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) Trade Accounts Receivable and Allowance for Uncollectibles

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$154,393, \$25,015, \$24,662 and \$12,698, respectively.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008**(4) Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$ 1,831,837	(673)	1,831,164
Wastewater	1,489,153	(1,050)	1,488,103
Electric	16,807,512	(20,205)	16,787,307
Sanitation	547,849	5,038	552,887

(5) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) SO2 Emission Credit

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. SO2 emission credit activity for the year ended June 30, 2008 is as follows:

Beginning of year	Credits earned	Credits Used/Tsf	Sold	End of Year
7,606	1,803	(362)	-	9,047

The value of the unused credits at the year end was \$325 per credit for a total value of \$2,940,275.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008**(7) Capital Assets**

Capital assets activity for the year ended June 30, 2008 is as follows:

Primary Government:	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,363,538	79,050	-	5,442,588
Construction in progress:				
Volksweg Trail Extension	181,827	2,367	-	184,194
Washington St. Widening	394,570	-	(394,570)	-
Airport Runway 16/34 Rehab	1,455	32,523	(33,978)	-
Aquatic Center II	582,351	2,415,081	-	2,997,432
Airport Tractor	-	8,569	-	8,569
Total capital assets not being depreciated	6,523,741	2,537,590	(428,548)	8,632,783
Capital assets being depreciated:				
Vehicles	371,595	64,389	-	435,984
Buildings and improvements	20,574,156	27,408	-	20,601,564
Machinery and equipment	5,600,656	95,648	(178,332)	5,517,972
Infrastructure	17,346,652	931,690	-	18,278,342
Total capital assets being depreciated	43,893,059	1,119,135	(178,332)	44,833,862
Less accumulated depreciation for:				
Vehicles	180,825	62,832	-	243,657
Buildings and improvements	3,375,742	518,003	-	3,893,745
Machinery and equipment	5,010,386	128,771	(177,578)	4,961,579
Infrastructure	4,725,995	479,495	-	5,205,490
Total accumulated depreciation	13,292,948	1,189,101	(177,578)	14,304,471
Total capital assets being depreciated net	30,600,111	(69,966)	(754)	30,529,391
Governmental activities capital assets, net	\$ 37,123,852	2,467,624	(429,302)	39,162,174

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008(7) **Capital assets (continued from previous page)**

Business type activities:	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Water Fund:				
Capital assets not being depreciated:				
Land	\$ 118,360	-	-	118,360
Construction in progress:				
University St. Main Replacement	224,722	944	(225,666)	-
Jordan Well Repairs	45,414	70,707	(116,121)	-
AFGF Rehabilitation	-	70,866	-	70,866
Total capital assets not being depreciated	388,496	142,517	(341,787)	189,226
Capital assets being depreciated:				
Buildings and improvements	9,544,953	-	-	9,544,953
Machinery and equipment	303,659	236,793	-	540,452
Furniture and fixtures	1,079	-	-	1,079
Vehicles	62,178	20,395	(7,189)	75,384
Infrastructure	4,342,423	433,545	-	4,775,968
Total capital assets being depreciated	14,254,292	690,733	(7,189)	14,937,836
Less accumulated depreciation for:				
Buildings and improvements	4,696,508	248,892	-	4,945,400
Machinery and equipment	130,736	47,160	-	177,896
Furniture and fixtures	1,079	-	-	1,079
Vehicles	26,381	11,895	(7,189)	31,087
Infrastructure	1,640,955	184,754	-	1,825,709
Total accumulated depreciation	6,495,659	492,701	(7,189)	6,981,171
Total capital assets being depreciated net	7,758,633	198,032	-	7,956,665
Water - capital assets, net	\$ 8,147,129	340,549	(341,787)	8,145,891

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008(7) **Capital assets (continued from previous page)**

	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
None	-	-	-	-
Total capital assets not being depreciated	907,049	-	-	907,049
Capital assets being depreciated:				
Buildings and improvements	16,727,045	-	(68,947)	16,658,098
Machinery and equipment	554,488	18,182	(5,390)	567,280
Furniture and fixtures	4,604	-	(450)	4,154
Vehicles	49,369	246,229	-	295,598
Infrastructure	7,386,331	234,767	-	7,621,098
Total capital assets being depreciated	24,721,837	499,178	(74,787)	25,146,228
Less accumulated depreciation for:				
Buildings and improvements	10,307,859	434,566	(32,814)	10,709,611
Machinery and equipment	342,093	33,273	(5,390)	369,976
Furniture and fixtures	4,604	-	(450)	4,154
Vehicles	33,123	33,128	-	66,251
Infrastructure	2,498,560	299,963	-	2,798,523
Total accumulated depreciation	13,186,239	800,930	(38,654)	13,948,515
Total capital assets being depreciated net	11,535,598	(301,752)	(36,133)	11,197,713
Wastewater - capital assets, net	\$ 12,442,647	(301,752)	(36,133)	12,104,762

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008(7) **Capital assets (continued from previous page)**

	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Electric Fund:				
Capital assets not being depreciated:				
Land	\$ 550,724	-	-	550,724
Construction in progress:				
Council Bluffs Unit Four	17,832,175	612,855	(18,445,030)	-
Cable Replacement	15,102	107,115	(122,217)	-
Boiler 6 Damage Repair	-	639,143	-	639,143
Total capital assets not being depreciated	18,398,001	1,359,113	(18,567,247)	1,189,867
Capital assets being depreciated:				
Buildings and improvements	20,259,056	18,445,030	-	38,704,086
Machinery and equipment	22,954,105	213,830	-	23,167,935
Furniture and fixtures	21,037	-	-	21,037
Vehicles	378,451	105,057	(66,974)	416,534
Total capital assets being depreciated	43,612,649	18,763,917	(66,974)	62,309,592
Less accumulated depreciation for:				
Buildings and improvements	9,404,276	306,424	-	9,710,700
Machinery and equipment	7,066,978	697,506	-	7,764,484
Furniture and fixtures	21,037	-	-	21,037
Vehicles	338,362	33,807	(66,974)	305,195
Total accumulated depreciation	16,830,653	1,037,737	(66,974)	17,801,416
Total capital assets being depreciated net	26,781,996	17,726,180	-	44,508,176
Electric-capital assets, net	\$ 45,179,997	19,085,293	(18,567,247)	45,698,043

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(7) **Capital assets (continued from previous page)**

Combining Schedule				Balance
Business type activities:	Beginning of			End of
	Balance	Increases	Decreases	Year
Capital assets not being depreciated:				
Land	\$ 1,576,133	-	-	1,576,133
Construction in progress	18,117,413	1,501,630	(18,909,034)	710,009
Total capital assets not being depreciated	19,693,546	1,501,630	(18,909,034)	2,286,142
Capital assets being depreciated:				
Total capital assets being depreciated	82,588,778	19,953,828	(148,950)	102,393,656
Total accumulated depreciation	36,512,551	2,331,368	(112,817)	38,731,102
Total capital assets being depreciated (net)	46,076,227	17,622,460	(36,133)	63,662,554
Business type activities capital assets, net	\$ 65,769,773	19,124,090	(18,945,167)	65,948,696

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public works	\$ 637,927
Public safety	71,427
Culture and recreation	334,239
General government	145,508
Total depreciation expense - governmental activities	<u>1,189,101</u>
Business type activities:	
Water	\$ 492,701
Wastewater	800,930
Electric	1,037,737
Total depreciation expense - business type activities	<u>\$ 2,331,368</u>

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2008:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
General obligation bonds/notes	\$ 10,595,000	2,650,000	(5,335,000)	7,910,000	1,070,000	6,840,000
Compensated absences	294,389	163,268	(152,726)	304,931	162,223	142,708
Total governmental activities	\$ 10,889,389	2,813,268	(5,487,726)	8,214,931	1,232,223	6,982,708
Business type activities:						
Revenue bonds/notes	25,469,000	-	(1,813,000)	23,656,000	1,907,000	21,749,000
Compensated absences	352,928	216,306	(167,894)	401,340	189,434	211,906
Total	25,821,928	216,306	(1,980,894)	24,057,340	2,096,434	21,960,906
Unamortized discount	(138,941)	-	23,538	(115,403)	(14,965)	(100,438)
Total business type activities	\$ 25,682,987	216,306	(1,957,356)	23,941,937	2,081,469	21,860,468

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008**(8) Long-Term Liabilities (continued from previous page)**General Obligation Bonds

Seven issues of unmatured general obligation bonds/notes totaling \$7,910,000 are outstanding at June 30, 2008. General obligation bonds/notes bear interest rates ranging from 1.30% to 4.75% per annum and mature in varying annual amounts, ranging from \$85,000 to \$270,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2008 are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2008
G/O Debt for Wastewater	2001	4.00-4.75%	June 1, 2015	105,000-160,000	\$ 1,505,000	970,000
General Government G/O	2002	1.60-3.25%	June 1, 2010	195,000-225,000	1,600,000	445,000
General Government G/O	2003	1.30-3.50%	June 1, 2012	85,000-155,000	1,370,000	480,000
General Government G/O	2003	2.00-3.50%	June 1, 2015	175,000-240,000	2,300,000	1,490,000
General Government G/O	2006	3.65-4.05%	June 1, 2016	190,000-270,000	2,260,000	1,875,000
General Government G/O	2008A	2.60-3.90%	June 1, 2018	95,000-150,000	1,230,000	1,230,000
General Government G/O	2008B	2.50-4.10%	June 1, 2020	85,000-150,000	1,420,000	1,420,000
					11,685,000	7,910,000
Total General obligation bonds					<u>\$ 11,685,000</u>	<u>7,910,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt	
	Principal	Interest
2009	\$ 1,070,000	299,682
2010	1,115,000	250,270
2011	855,000	213,260
2012	890,000	183,758
2013	830,000	152,028
2014-2018	2,855,000	321,958
2019-2023	295,000	18,173
Total	<u>\$ 7,910,000</u>	<u>1,439,129</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(8) **Long-Term Liabilities (continued from previous page)**

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
G/O Debt for Wastewater	2001	\$ 1,505,000	June 1, 2009
General Government G/O	2002	1,600,000	Not subject to call
General Government G/O	2003	1,370,000	June 1, 2008
General Government G/O	2003	2,300,000	June 1, 2015
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2008:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
General Obligation bonds/notes	\$ 10,595,000	2,650,000	(5,335,000)	\$ 7,910,000

Revenue Notes

Eight issues of unmatured revenue notes totaling \$23,656,000 are outstanding at June 30, 2008. These notes bear interest at rates ranging from 2.10% to 4.625% per annum and mature in varying annual amounts ranging from \$23,000 to \$1,090,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- Separate electric, water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for electric and water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2008, the City was in compliance with the revenue note provisions.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008**(8) Long-Term Liabilities (continued from previous page)**

Details of revenue notes payable at June 30, 2008, are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2008
Wastewater	1999	3.92%	June 1, 2021	\$111,000-197,000	\$ 2,800,000	2,053,000
Wastewater	2000	4.30%	June 1, 2021	62,000-116,000	1,604,000	1,187,000
Wastewater	2000	4.30%	June 1, 2021	21,000-39,000	641,000	396,000
Electric	2001	4.00-4.625%	June 1, 2014	565,000-930,000	9,000,000	4,965,000
Water	2003	2.10-3.90%	June 1, 2014	95,000-130,000	1,000,000	705,000
Electric	2004	3.25-3.90%	June 1, 2019	105,000-1,090,000	6,000,000	5,760,000
Electric	2005	2.80-4.10%	June 1, 2019	240,000-710,000	7,000,000	6,310,000
Water refunding	2007	3.60-3.70%	June 1, 2015	260,000-370,000	2,540,000	2,280,000
					30,585,000	23,656,000
Unamortized discount					(283,984)	(115,403)
Net revenue bonds					<u>\$ 30,301,016</u>	<u>23,540,597</u>

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 400,000	107,958	217,000	148,547	1,290,000	671,372	1,907,000	927,877
2010	420,000	94,083	226,000	139,687	1,345,000	622,653	1,991,000	856,423
2011	435,000	79,293	235,000	130,459	1,435,000	570,759	2,105,000	780,511
2012	460,000	63,805	246,000	120,863	1,495,000	513,999	2,201,000	698,667
2013	475,000	47,075	256,000	110,813	1,590,000	452,749	2,321,000	610,637
2014-2018	795,000	40,590	1,441,000	388,697	8,080,000	1,296,567	10,316,000	1,725,854
2019-2023	-	-	1,015,000	84,070	1,800,000	70,910	2,815,000	154,980
Total	\$ 2,985,000	432,804	3,636,000	1,123,136	17,035,000	4,199,009	23,656,000	5,754,949

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Electric	2001	9,000,000	June 1, 2009
Water	2003	1,000,000	June 1, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013
Water refunding	2007	2,540,000	Not subject to call

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(8) **Long-Term Liabilities (continued from previous page)**

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2008:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 3,345,000	-	(360,000)	2,985,000
Unamortized discount	(28,200)	-	3,581	(24,619)
Net water revenue notes	3,316,800	-	(356,419)	2,960,381
Sewer revenue notes	3,844,000	-	(208,000)	3,636,000
Net sewer revenue notes	3,844,000	-	(208,000)	3,636,000
Electric revenue notes	18,280,000	-	(1,245,000)	17,035,000
Unamortized discount	(102,168)	-	11,384	(90,784)
Net electric revenue notes	18,177,832	-	(1,233,616)	16,944,216
Total net revenue notes	\$ 25,338,632	-	(1,798,035)	23,540,597

Current Refunding - During the current year, the City issued two general obligation refunding bonds. The first issue, for \$1,230,000, was used to refund \$1,785,000 of the City's outstanding General Obligation Bonds, Series 1999, originally issued December 1, 1999. This refunding was calculated to result in a net economic savings of approximately \$134,800. The second issue, a G.O. Urban Renewal Refunding bond for \$1,420,000, was used to aid in the costs of current urban renewal projects and refund \$1,385,000 of the City's outstanding General Obligation Bonds, Series 2000, originally issued June 1, 2000. The refunding was calculated to result in a net economic savings of approximately \$110,400.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$540,852 is all direct interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
Business type activities:				
Sewer general obligation bond	\$ 9,238	-	(9,238)	-
Sewer SFR Loan	42,344	-	(3,258)	39,086
Water revenue note	47,508	-	(6,153)	41,355
Electric revenue note	132,316	-	(12,196)	120,120
Total deferred issuance costs	\$ 231,406	-	(30,845)	200,561

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to:	Transfer from:	Amount
General	Employee Benefits - Special Revenue	\$ 424,723
General	Environmental Services	54,636
Debt Service	Local sales tax- Special Revenue	188,026
Debt Service	Bos Landen- TIF- Special Revenue	1,150,148
Debt Service	Pella Business Corridor- TIF- Special Revenue	1,170,833
Debt Service	Library Building Fund	48,571
Debt Service	2001 G.O. Sewer Bonds	163,870
Bos Landen-TIF - Special Revenue	Local sales tax - Special Revenue	221,162
Capital	General	50,000
Capital	Carnegie-Viersen Van Gorp Trust	2,367
Capital	Water	4,275
Capital	Wastewater	4,275
Capital	Electric	4,275
Capital	Parks Development	5,298
Capital-Pella Outdoor Aquatic	Local sales tax - Special Revenue	2,421,207
Capital-Local Option	Local sales tax - Special Revenue	16,509
Capital-RUT	Road use - Special Revenue	219,557
Capital-Pella Business Corridor	Pella Business Corridor- TIF- Special Revenue	134,587
Pella Comm. Center Van Trust	Capital	8,257

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(10) Due From and Due To Other Funds

Since July 1, 2001, the interfund receivable due to the Road Use Fund has accrued interest at a rate of 6% compounded annually. Since February 1, 2007, the interfund receivable due to the Capital Projects Fund has accrued interest at a rate of 5% compounded annually. Beginning October 1, 2008, the interfund receivable due to the General, Water and Electric funds will accrue interest at a rate of 3% compounded annually.

The detail of interfund receivables and payables for the year ended June 30, 2008 is as follows:

Receivable Fund:	Payable Fund:	Amount	APR
Road Use Fund	Pella Business Corridor TIF	\$ 309,000	6%
Capital Projects Fund	High Point TIF	6,612	5%
General Fund	Local Sales Tax-Spec. Rev	307,250	3%
Water Fund	Local Sales Tax-Spec. Rev	307,250	3%
Electric Fund	Local Sales Tax-Spec. Rev	614,500	3%

These balances result from interfund loans to finance projects. Repayments for the first two loans will be made from future TIF revenues and are not expected to be paid within one year. Repayments for the last three loans will be made from future Local Option Sales Tax revenues and are not expected to be paid within one year.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(11) **Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

	Governmental Activities	Business Type Activities
Restricted for:		
Debt restricted - Water Bond Reserve	\$ -	460,000
Debt restricted - Wastewater Bond Reserve	-	447,300
Debt restricted - Electric Bond Reserve	-	2,009,148
Debt restricted - Electric Improvement Reserve	-	1,500,000
Debt restricted - Debt Service fund balance	-	-
Special purposes - TIF - High Point	(6,612)	-
Special purposes - TIF - Pella Business Corridor	(429,128)	-
Special purposes - to cover deficit TIF balances	435,740	-
Special purposes - Road use	505,454	-
Special purposes - Local Option Sales Tax	(1,228,591)	-
Special purposes - to cover deficit LOST balance	1,228,591	-
Special purposes - Pella Clothing Bank	1,462	-
Special purposes - Police Reserve	1,130	-
Special purposes - Community Development	4,675	-
Special purposes - Library Gifts/Memorials	70,977	-
Special purposes - Pella Community Center	4,843	-
Special purposes - Pella Community Center Van Trust	8,097	-
Special purposes - Art Center	24,448	-
Special purposes - Airport	118,611	-
Special purposes - Police Asset Forfeiture	27,435	-
Special purposes - Soccer Complex	15,265	-
Special purposes - Parks Development	25,016	-
Special purposes - Carnegie-Viersen Trust Earnings - Library operations	26,192	-
Special purposes - Carnegie-Viersen-Van Gorp Trust Earnings - Educational purposes	5,713	-
Special purposes - Carnegie-Viersen-Van Gorp Trust - Library Repairs	28,352	-
Special purposes - Van Gorp Trust Earnings - Information Windmill Repairs	13,365	-
Nonexpendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonexpendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Other - deposits	-	97,206
Total net restricted assets	\$ 1,021,035	4,513,654

(12) **Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006, were \$259,630, \$229,337, and \$218,144, respectively, equal to the required contributions for each year.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(12) Retirement Plans (continued from previous page)

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 25.48%, 27.75%, and 28.21%, of earnable compensation for the years ended June 30, 2008, 2007 and 2006, respectively. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2008, 2007 and 2006 were \$163,219, \$167,229, and \$169,977, respectively, which met the required minimum contribution for each year.

(13) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(14) Deficit Balances

At June 30, 2008, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing	
Pella Business Corridor	\$429,128
High Point	\$6,612
Special Revenue, Local Option Sales Tax	1,228,591

These deficit balances are the result of project costs in excess of available funds. The tax increment financing fund deficits will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues into the Capital Projects and Road Use Funds. The local option sales tax fund will be eliminated upon collection of local option sales tax revenues and the subsequent payment of interfund loans to the General, Water and Electric funds.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(15) Related Party Transactions

The City had business transactions between the City and Council members totaling \$495 during the year ended June 30, 2008. There were no related payables at June 30, 2008.

(16) Major Customer

During the year ended June 30, 2008, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,754,206 and \$2,506,761 of electric power. These charges represent 22.34% and 14.91%, respectively, of total charges for electric services.

(17) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Self-Insured Health Care Plan - The City of Pella has a self-insured health care plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the "stop-loss" feature of the plan. The maximum exposure for one individual in a twelve month period is \$50,000, and the maximum exposure for the group as a whole is a computed amount based on 120 percent of the actuarially computed expected claims for the group. Claims in excess of the stop-loss ceilings are paid by the stop-loss insurance company.

At June 30, 2008, the plan held \$645,207 cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$121,680, which is listed as the accounts payable balance of the Internal Service Fund.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008**(18) Commitments**

The City has entered into several contracts totaling \$4,403,273, plus one at 1.33% of total costs. At June 30, 2008, \$20,926,492 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	%Complete
Aquatic Center			
Central Electric	\$ 188,060	\$ 178,657	95%
Aquatic Center-Lazy River			
M & M Enterprises	2,951,135	2,734,555	93%
Walter Scott 4 (Council Bluffs 4)			
MidAmerican Energy	1.33% of Total Costs	17,191,945	
West 4th Street Sewer Repair			
Blommers Construction	40,462	-	0%
Washington St. Widening			
Elder Corporation	290,134	274,820	95%
University Sidewalk Project			
G & B Concrete	33,248	-	0%
Boiler #6 Repairs			
Capital City Boiler	441,912	419,816	95%
Pella to I-80 Corridor Feasibility Study			
CH2MHILL	183,947	25,284	14%
Replacement Airport			
Snyder & Assoc.	211,136	52,780	25%
Airport Layout Plan			
Snyder & Assoc.	42,000	28,140	67%
Wildlife Management Plan			
Snyder & Assoc.	15,739	15,267	97%
Water System Modeling			
Veenstra & Kimm, Inc.	5,500	5,228	95%
	<u>\$ 4,403,273</u>	<u>\$ 20,926,492</u>	

Other Contracts:	Expires:
Power Interchange Agreement	
Muscatine Power & Water	5/31/2009
Coal Supply Agreement	
Interstate Power & Light	Base price 12/31/2012
Ash Disposal Agreement	
Interstate Power & Light	Base price 12/31/2012
Solid Waste Collection	
Kal Services, Inc.	per tote 7/31/2009
Lime Sludge Removal	
Nutri-Ject Systems, Inc.	\$44.53/dry ton 9/16/2009
Annual Sewer Cleaning & Inspection	
Hydro-Klean	2008

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(19) Contingencies

On July 28, 2007, a coal boiler in the electric plant went down. A claim is filed with the City's insurance carrier which may result in litigation. Should the City be unsuccessful in this claim and litigation, it could result in the City paying in excess of \$500,000 for the damages to the electric plant.

(20) Prior Period Adjustments

An adjustment was made to reclass the general obligation debt to debt service from the Wastewater fund. Further clarification from the state regarding general obligation debt issued for a proprietary purpose resulted in the change. While the beginning fund balance for the Wastewater fund increased by \$1,085,000, the beginning fund balance for the government wide financial statements decreased by the same amount.

		Prior Period Adjustment	As restated, July 1, 2007
Proprietary Net Assets	June 30, 2007		
Water	\$ 7,370,868	-	7,370,868
Wastewater	9,046,470	1,085,000	10,131,470
Electric	37,008,123	-	37,008,123
Sanitation	29,999	-	29,999
Total	<u>\$ 53,455,460</u>	<u>1,085,000</u>	<u>54,540,460</u>

Entity-wide financial statements - Governmental activities:

Exhibit A, B; Net Assets June 30, 2007	\$ 31,896,958
General Obligation debt reclassified from wastewater	(1,085,000)
Net assets, July 1, 2007, as restated	<u>\$ 30,811,958</u>

(21) Subsequent Events

On July 11, 2008 the U.S. Court of Appeals vacated the Clean Air Interstate Rule. Due to the ruling, the SO2 market fell to around \$100 per credit. See note 7.

Required Supplementary Information

CITY OF PELLA, IOWA

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2008

	Governmental Funds-Actual	Proprietary Funds- Actual
Revenues:		
Property taxes	\$ 2,863,107	-
Tax increment financing	2,022,553	-
Other city taxes	1,392,517	-
Licenses and permits	18,266	-
Use of money and property	158,941	626,931
Intergovernmental	1,622,953	-
Charges for services	411,384	20,676,351
Miscellaneous	170,369	139,541
Total revenues	<u>8,660,090</u>	<u>21,442,823</u>
Expenditures:		
Public safety	1,568,486	-
Public works	1,037,294	-
Culture and recreation	1,645,610	-
Community and economic development	463,659	-
General government	344,179	-
Debt service	5,853,291	-
Capital projects	3,142,731	-
Business type activities	-	22,514,186
Total expenditures	<u>14,055,250</u>	<u>22,514,186</u>
Deficiency of revenues under expenditures	(5,395,160)	(1,071,363)
Other financing sources (uses):		
Operating transfers in	6,292,576	-
Operating transfers out	(6,061,245)	(231,331)
Capital Contributions-assets	-	403,997
Debt Proceeds	2,650,000	-
Discount on General obligation debt	(17,050)	-
Proceeds from sale of assets	-	(9,405)
Total other financing sources	<u>2,864,281</u>	<u>163,261</u>
Deficiency of revenues and other financing sources under expenditures	(2,530,879)	(908,102)
Balance beginning of year, as restated	<u>3,866,696</u>	<u>15,480,733</u>
Balance end of year	<u>\$ 1,335,817</u>	<u>14,572,631</u>

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,863,107	2,861,200	2,861,200	1,907
2,022,553	2,109,167	2,109,167	(86,614)
1,392,517	1,536,813	1,536,813	(144,296)
18,266	73,400	64,900	(46,634)
785,872	456,897	579,250	206,622
1,622,953	1,947,950	2,029,874	(406,921)
21,087,735	19,288,705	19,738,497	1,349,238
309,910	185,102	1,679,802	(1,369,892)
30,102,913	28,459,234	30,599,503	(496,590)
1,568,486	1,475,704	1,552,545	(15,941)
1,037,294	1,019,662	1,019,782	(17,512)
1,645,610	1,727,830	1,759,787	114,177
463,659	457,714	449,415	(14,244)
344,179	336,098	336,998	(7,181)
5,853,291	2,466,441	5,701,441	(151,850)
3,142,731	4,653,221	4,677,097	1,534,366
22,514,186	22,238,859	25,744,935	3,230,749
36,569,436	34,375,529	41,242,000	4,672,564
(6,466,523)	(5,916,295)	(10,642,497)	4,175,974
6,292,576	11,793,089	15,925,607	9,633,031
(6,292,576)	(11,763,089)	(15,895,607)	(9,603,031)
403,997	-	-	(403,997)
2,650,000	3,651,050	6,301,050	3,651,050
(17,050)	-	-	17,050
(9,405)	5,000	5,000	14,405
3,027,542	3,686,050	6,336,050	3,308,508
(3,438,981)	(2,230,245)	(4,306,447)	867,466
19,347,429	17,699,649	17,736,037	1,611,392
15,908,448	15,469,404	13,429,590	2,478,858

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE
PROPRIETARY-GAAP TO MODIFIED ACCRUAL RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2008

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 21,442,823	-	21,442,823
Expenses:			
Business type activities	20,540,513	1,973,673	22,514,186
Total expenses	20,540,513	1,973,673	22,514,186
Excess (deficiency) of revenues under expenses	902,310	(1,973,673)	(1,071,363)
Other financing sources (uses):			
Operating transfers from other funds	-	-	-
Operating transfers to other funds	(231,331)	-	(231,331)
Sale of fixed assets	(9,405)	-	(9,405)
Other revenues	403,997	-	403,997
Total other financing sources	163,261	-	163,261
Increase in net assets	1,065,571	(1,973,673)	(908,102)
Beginning net assets, as restated	54,540,460	(39,059,727)	15,480,733
Ending net assets	\$ 55,606,031	(41,033,400)	14,572,631

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$1,973,673 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$6,866,471. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements in the public safety, public works, community and economic development, general government and debt service functions exceeded the amounts budgeted.

CITY OF PELLA, IOWA

Other Supplementary Information

Schedule 1

CITY OF PELLA, IOWA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2008

Special Revenue Funds

	Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets								
Cash and pooled investments	\$ -	234,945	-	-	1,457	1,122	4,645	70,587
Receivable:								
Property tax:								
Delinquent	-	-	-	3,043	-	-	-	-
Succeeding year	-	-	-	403,673	-	-	-	-
Tax Increment Financing:								
Delinquent	45,343	-	-	-	-	-	-	-
Succeeding year	104,508	-	-	-	-	-	-	-
Local option sales tax	-	-	189,199	-	-	-	-	-
Accounts receivable, miscellaneous		3,794						
Due from other governments		7,814						
Due from other funds		309,000						
Accrued interest	-	-	-	-	5	8	30	390
Total assets	\$ 149,851	555,553	189,199	406,716	1,462	1,130	4,675	70,977
Liabilities and Fund Balance								
Liabilities:								
Excess of warrants over bank balance	\$ 45,343	-	188,790	3,043	-	-	-	-
Accounts payable	-	12,129	-	-	-	-	-	-
Salaries and benefits payable	-	19,728	-	-	-	-	-	-
Deferred revenue:								
Succeeding year property tax	-	-	-	403,673	-	-	-	-
Succeeding year tax increment financ.	104,508	-	-	-	-	-	-	-
Compensated absences payable	-	18,242	-	-	-	-	-	-
Interfund payable	6,612	-	1,229,000	-	-	-	-	-
Total liabilities	156,463	50,099	1,417,790	406,716	-	-	-	-
Fund balances:								
Reserved:								
Permanent trust	-	-	-	-	-	-	-	-
Other special purposes	(6,612)	505,454	(1,228,591)	-	1,462	1,130	4,675	70,977
Total fund balances	(6,612)	505,454	(1,228,591)	-	1,462	1,130	4,675	70,977
Total liabilities and fund balance	\$ 149,851	555,553	189,199	406,716	1,462	1,130	4,675	70,977

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds								Permanent Funds		Total Non-major Governmental Funds
Pella Community Center Trust	Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
4,818	8,097	24,893	117,760	27,421	15,265	26,524	33,833	66,192	112,555	750,114
-	-	-	-	-	-	-	-	-	-	3,043
-	-	-	-	-	-	-	-	-	-	403,673
-	-	-	-	-	-	-	-	-	-	45,343
-	-	-	-	-	-	-	-	-	-	104,508
-	-	-	-	-	-	-	-	-	-	189,199
										3,794
										7,814
										309,000
25	-	-	851	14	-	112	232	-	810	2,477
4,843	8,097	24,893	118,611	27,435	15,265	26,636	34,065	66,192	113,365	1,818,965
-	-	-	-	-	-	-	-	-	-	237,176
-	-	445	-	-	-	1,620	-	-	-	14,194
-	-	-	-	-	-	-	-	-	-	19,728
-	-	-	-	-	-	-	-	-	-	403,673
-	-	-	-	-	-	-	-	-	-	104,508
-	-	-	-	-	-	-	-	-	-	18,242
-	-	-	-	-	-	-	-	-	-	1,235,612
-	-	445	-	-	-	1,620	-	-	-	2,033,133
-	-	-	-	-	-	-	-	40,000	100,000	140,000
4,843	8,097	24,448	118,611	27,435	15,265	25,016	34,065	26,192	13,365	(354,168)
4,843	8,097	24,448	118,611	27,435	15,265	25,016	34,065	66,192	113,365	(214,168)
4,843	8,097	24,893	118,611	27,435	15,265	26,636	34,065	66,192	113,365	1,818,965

Schedule 2

CITY OF PELLA, IOWA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR OTHER GOVERNMENTAL FUNDS
 Year ended June 30, 2008

	Special Revenue Funds								
	Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:									
Property tax	\$ -	-	-	419,783	-	-	-	-	-
Tax Increment Financing	710,517	-	-	-	-	-	-	-	-
Local option tax	-	-	875,711	-	-	-	-	-	-
Other City Taxes	-	-	100,000	3,090	-	-	-	-	-
Intergovernmental	-	917,769	-	-	-	-	-	13,789	-
Use of money and property	4,390	17,491	14,906	1,850	28	36	143	1,961	190
Miscellaneous	-	930	-	-	2,333	-	-	13,108	-
Total revenues	714,907	936,190	990,617	424,723	2,361	36	143	28,858	190
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	782,552	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	2,159	-	-	21,090	2,460
Debt Service	3,095	-	-	-	-	-	-	-	-
Total expenditures	3,095	782,552	-	-	2,159	-	-	21,090	2,460
Excess (deficiency) of revenues over (under) expenditures	711,812	153,638	990,617	424,723	202	36	143	7,768	(2,270)
Other financing sources (uses):									
Operating transfer in	221,162	-	-	-	-	-	-	-	-
Operating transfer (out)	(1,150,148)	(219,557)	(2,846,904)	(424,723)	-	-	-	-	-
Total other financing sources (uses)	(928,986)	(219,557)	(2,846,904)	(424,723)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(217,174)	(65,919)	(1,856,287)	-	202	36	143	7,768	(2,270)
Fund balances beginning of year	210,562	571,373	627,696	-	1,260	1,094	4,532	63,209	7,113
Fund balances end of year	\$ (6,612)	505,454	(1,228,591)	-	1,462	1,130	4,675	70,977	4,843

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds							Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Develop- ment	Carnegie- Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	419,783
-	-	-	-	-	-	-	-	-	710,517
-	-	-	-	-	-	-	-	-	875,711
-	-	-	-	-	-	-	-	-	103,090
-	-	-	15,553	-	-	-	-	-	947,111
40	195	3,965	391	121	671	1,170	3,994	3,775	55,317
-	4,130	-	-	6,300	8,862	-	-	-	35,663
40	4,325	3,965	15,944	6,421	9,533	1,170	3,994	3,775	3,147,192
-	-	-	21,884	-	-	-	-	-	21,884
-	-	376	-	-	-	-	-	-	782,928
200	3,038	-	-	6,477	14,501	-	-	-	49,925
-	-	-	-	-	-	-	-	-	3,095
200	3,038	376	21,884	6,477	14,501	-	-	-	857,832
(160)	1,287	3,589	(5,940)	(56)	(4,968)	1,170	3,994	3,775	2,289,360
8,257	-	-	-	-	-	-	-	-	229,419
-	-	-	-	-	(5,298)	(2,367)	-	-	(4,648,997)
8,257	-	-	-	-	(5,298)	(2,367)	-	-	(4,419,578)
8,097	1,287	3,589	(5,940)	(56)	(10,266)	(1,197)	3,994	3,775	(2,130,218)
-	23,161	115,022	33,375	15,321	35,282	35,262	62,198	109,590	1,916,050
8,097	24,448	118,611	27,435	15,265	25,016	34,065	66,192	113,365	(214,168)

CITY OF PELLA, IOWA
COMBINING BALANCE SHEET
TAX INCREMENT FINANCING
June 30, 2008

	Bos Landen	High Point	Total
Assets			
Receivables:			
Tax increment financing:			
Delinquent	\$ 45,343	-	45,343
Succeeding year tax increment financing		104,508	104,508
Total assets	\$ 45,343	104,508	149,851
Liabilities and Fund Balances			
Liabilities:			
Excess of warrants over bank balance	\$ 45,343	-	45,343
Deferred Revenue:			
Succeeding year tax increment financing	-	104,508	104,508
Account payable	-	-	-
Interfund payable	-	6,612	6,612
Total liabilities	\$ 45,343	111,120	111,120
Fund balances:			
Special purposes	-	(6,612)	38,731
Total liabilities and fund balances	\$ 45,343	104,508	149,851

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 TAX INCREMENT FINANCING
 Year ended June 30, 2008

	Bos Landen	High Point	Total
Revenues:			
TIF revenues	\$ 607,365	103,152	710,517
Use of money and property	4,390	-	4,390
Total revenues	611,755	103,152	714,907
Expenditures:			
Debt Service	-	3,095	3,095
Total expenditures	-	3,095	3,095
Excess of revenues over expenditures	611,755	100,057	711,812
Other financing sources (uses):			
Operating transfer in	221,162	-	221,162
Operating transfer (out)	(1,150,148)	-	(1,150,148)
Total other financing uses	(928,986)	-	(928,986)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(317,231)	100,057	(217,174)
Fund balances beginning of year	317,231	(106,669)	210,562
Fund balances end of year	\$ -	(6,612)	(6,612)

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	2008	2007	2006	2005	2004	2003	2002
Revenues:							
Property tax	\$ 2,863,107	\$ 2,792,009	2,778,762	2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	875,711	984,332	1,000,702	813,900	851,409	908,915	424,448
Other city tax	516,806	499,706	394,645	366,366	367,213	384,797	323,714
Licenses and permits	18,266	21,369	27,320	30,033	20,427	14,558	14,351
Use of money and property	158,941	177,215	178,192	151,017	120,419	99,101	170,331
Intergovernmental	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	-	44,124	-	-	-	-	2,588
Charges for service	411,384	340,054	377,208	353,694	251,492	310,852	307,930
Miscellaneous	170,369	406,459	277,790	183,838	516,042	289,876	752,519
Total	<u>\$ 8,660,090</u>	<u>\$ 8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:							
Operating:							
Public safety	\$ 1,568,486	\$ 1,411,218	1,401,296	1,338,999	1,148,456	1,098,202	1,088,566
Public works	1,037,294	1,010,058	911,054	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	463,659	541,534	506,050	601,903	262,752	86,560	237,300
General government	344,179	339,003	336,511	338,399	666,256	718,703	940,854
Debt service	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	3,142,731	2,217,218	1,446,816	668,144	3,205,314	367,781	894,029
Total	<u>\$ 14,055,250</u>	<u>\$ 8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report.

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 9, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Pella's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Pella's financial statements that is more than inconsequential will not be prevented or detected by the City of Pella's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Pella's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

January 9, 2009

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS
Year ended June 30, 2008

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation - We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response - We will work to maintain the best possible control with the personnel available.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in Federal Awards.

CITY OF PELLA, IOWA

SCHEDULE OF FINDINGS

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-08 Certified Budget - Expenditures for the year ended June 30, 2008, exceeded the budget in the public safety, public works, community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- IV-B-08 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-08 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2008 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Stockholder of Eagle Electric, Inc.	Electrical work	\$437

There were no related payables at June 30, 2008.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- IV-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

- IV-F-08 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF PELLA, IOWA

SCHEDULE OF FINDINGS

Year ended June 30, 2008

IV-G-08 Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

IV-H-08 Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.

IV-I-08 Financial Condition – As of June 30, 2008, the Special Revenue Fund, Tax Increment Financing, Pella Business Corridor account had a deficit balance of \$429,128, the Special Revenue Fund, Tax Increment Financing, High Point account had a deficit balance of \$6,612 and the Special Revenue, Local Option Tax account had a deficit balance of \$1,228,591.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit in the Pella Business Corridor account is due to an interfund payable to the Road Use Fund of \$309,000 and additional payables at the year end. The deficit in the High Point account is due to an interfund payable to the Capital Projects Fund of \$6,612. We anticipate these payables will be paid back with future TIF revenues. The deficit balance in the Local Option Tax account is due to the following interfund payables: \$307,250 to the General fund, \$307,250 to the Water fund, and \$614,500 to the Electric fund. We anticipate these payables will be paid back with future local option tax revenues.

Conclusion - Response accepted.